

THE EFFECT OF BUDGET PARTICIPATION, ASIMETRY INFORMATION AND BUDGET EMPHASIS ON BUDGETARY SLACK WITH LOCUS OF CONTROL AS MODERATING VARIABLES AT ISLAMIC UNIVERSITY OF SUMATERA UTARA (UISU)

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Abstract

The objectives of the research were (1) to discover the influence of budgetary participation, asymmetric information, and budget emphasis on budgetary slack in UISU (Universitas Islam Sumatera Utara) and (2) to discover the influence of Locus of Control in moderating the correlation among budgetary participation, asymmetric information, and budget emphasis with budgetary slack in UISU. This is a causality research. The population was 122 questionnaires, only 100 of them were returned thus became the samples. The samples were taken by applying census technique in which the whole population was taken as the samples. The data consisted of primary data and were collected through survey method by distributing questionnaires to the head and employees of UISU. The research tested the data by using measurement model or outer model, structural model or inner model, and effect size for the moderating variable. The results of the research proved that (1) budgetary participation had a significantly negative influence, and asymmetric and budget emphasis did not have any influence on budgetary slack in UISU, and (2) locus of control was not able to moderate the correlation among budgetary participation, asymmetric information, and budget emphasis with budgetary slack in UISU.

Keywords: Budget Participation, Asymmetric Information, Budget Emphasis, Budgetary Slack, Locus of Control

1. Introduction

In the management of an organization, management must first set goals and objectives, then plan activities to achieve these goals and objectives. The consequences of the planned activities are expected to have an impact on finance, so it must be compiled and evaluated through the budgeting process. The budget describes the financial condition of an organization which includes information about income, expenditure, and activities of the organization. The role of the budget as a management tool to develop planning, coordination and supervision of activities does not need to be doubted. The budget is a determination of the strategy of the government, company or business entity in the future, through existing data in the present.

The phenomenon that occurs at the Islamic University of North Sumatra is that the Budget is not used according to its functions (planning, coordination, supervision, and as work guidelines). Those who are involved and participate in budgeting usually do not understand how and for what the budget is set. It is often found that the draft budget report is completed only as a condition for completing the file annually. The inadequacy of those who participate in the preparation and implementation of this budget causes a far greater realization of the budget.

Also, the impact of the understanding of the leadership about the function of the budget is the lack of emphasis on the budget that has been set. So that in issuing costs is not based on consideration in the draft budget. So that the index of inaccuracy in the report on the realization of the budget is very large. That is, the pure budget figure set at the beginning of the year is far proportional to the realization figure in the year-end financial statements. But this was never an important spotlight in the morning the highest leadership, in this case the chancellor and his staff, as well as the founders and administrators of the foundation. It is as if each individual ignores the function of the budget as a planner, coordination, supervision and work guidelines. Because there has never been a sanction or continuation of the budget realization report issued by each sub-unit (faculty) each year.

The budgetary slack that occurred at UISU was predicted to be generated from budgeting participation, asymmetry information and locus of control. Dunk (1998) states that the interaction of information asymmetry with participation in budgeting is the main factor causing the occurrence of budgetary slack. Anthony and Govindarajan (2011) suggest that the budget will affect the behavior of subordinates namely responding positively or negatively depending on the use of the budget. According to Falikhatun: 2007, as for the three main reasons managers do budgetary slack are:

- a. People always believe that the results of their work will look good in the eyes of employers if they can reach their budget.
- b. Budgetary slack is always used to overcome conditions of uncertainty, if there are no unexpected events that occur the manager can exceed or reach his budget.
- c. The budget plan is always deducted in the process of allocating resources.

Based on the background supported by existing theories and equipped with data and facts that occurred at the Islamic University of North Sumatra, therefore the research was conducted by taking the title “The Effect of Budget Participation, Information Asymmetry and Locus of Control on Budget Slack at Islamic University Sumatra Utara (UISU) with Budget Emphasis as a Moderating Variable”.

2. Literature Review and Hypothesis

2.1. Budgetary Slack

Budgetary slack is a deliberate action carried out by the Faculty when it participates in budgeting, by providing proposals and budget estimates that are not in accordance with the capacity that is owned or not in accordance with the actual resources needed, with the intention that the budget is easily realized. The Chancellor performs this slack by raising the amount needed or lowering the actual income that can be achieved. Budgetary slack actually arises because the desires of superiors and subordinates are not the same especially if performance depends on achieving budget targets, because they will make budgetary slack through a process of participation (Schiff and Lewin, 1970; Chow et al. 1988; Grediani and Sugiri, 2010).

2.2. Budget Participation

Budget participation (participative budgeting) involves all levels of management to develop a budget plan. Budget participation is needed because subordinates are more aware of the direct condition of the part. Thus, the company's goals will be more acceptable if all members of the organization can be together in a group to exchange opinions and information about the company's goals and be involved in determining the steps to achieve that goal. Murray in Sumarno (2005) states that the participation of subordinates in budgeting has consequences for the attitudes and behaviour of members

of the organization which in turn will affect the performance of members of the organization.

The benefits of budgeting participation in budget participation will cause the Faculty to have a sense of responsibility for the realization of the implementation of the budget (Sugiwardani, 2012). Increased responsibility and creativity will make a good contribution to the organization, especially regarding employee performance and productivity. While the weaknesses of budget participation according to Hansen and Mowen (2009) are: Setting standards that are too high or low, the inclusion of slack (slack) in the budget and apparent participation.

2.3. Asymmetry Information

Asymmetry information is the difference in relevant information used in decision making between the Chancellor and the Faculty. Sulistyanto in Erawati (2006) states that information asymmetry is the difference in information held by the top level Chancellor with the Faculty due to differences in sources and access to information.

Information asymmetry encourages the importance of participation in budgeting so that the budget is more useful. The legal requirement for participation in providing information or "well informed" means that everyone who participates can provide good and useful information that will be useful in budgeting. Subordinate participation in budgeting is what can provide an opportunity to enter local information.

2.4. Budget Emphasis

Budget emphasis is the provision of rewards or performance appraisers for the Faculties based on achieving budget targets or if the leader perceives that the performance and rewards are judged based on the budget targets achieved (Dunk, 1993). Performance appraisal is a periodic determination of the operational effectiveness of an organization, parts of the organization and employees based on previously defined targets, standards and criteria (Siegel and Marconi, 1989).

In the agency research acknowledging the relationship between budget functions and compensation. The emphasis is on how the budget level, in relation to rewards or penalties based on the budget, can be used to overcome asymmetry information about subordinates' abilities or businesses. By providing incentives it is hoped that subordinates provide personal information more honest in budgeting participation (Chow., et al., 1988).

2.5. Locus of Control

Locus of control is an individual's control of their work and their belief in self-success. Rotter (1990) defines locus of control as a personality variable about an individual's belief in being able or not to control his destiny. The concept of Locus of control is based on the theory of social learning (social learning theory) Reiss and Mitra (1998). Social learning theory states that choices are made by individuals from a variety of potential behaviours available to them.

Based on the theory of locus of control, that the behaviour of a manager in budgeting will be influenced by the characteristics of the locus of control. Characteristics of internal locus of control are those who believe that an event is always in control and will always take the role and responsibility in determining right or wrong. Conversely, people with external locus of control believe that the events in his life are beyond his control and believe that his life is influenced by fate, luck, and opportunity and more trust the power outside himself.

2.6. Conceptual Framework

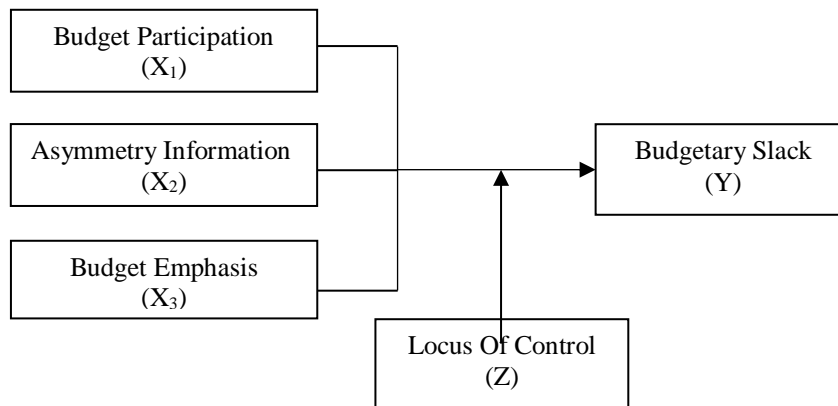


Figure 1. Conceptual Framework

2.7. Hypothesis

The research hypothesis are:

H1: Budget participation affects the budgetary slack.

H2: Asymmetry information affects the budgetary slack.

H3: Budget emphasis has an effect on budgetary slack.

H4: Locus of control can moderate the influence of budget participation, information asymmetry and budget emphasis on budgetary slack.

3. Method

3.1. Type of Research

The type of research that will be conducted is a type of research with hypothesis testing (hypotheses testing). This research was conducted at the Islamic University of North Sumatra. The population in this study amounted to 122 people. Samples are part of the number and characteristics of the population (Sugiyono, 2007). The sampling technique in this study was the census.

3.2. Operational Definition of Variables

Dependent Variable (Y) namely Budgetary Slack is the difference between the resources needed and the resources proposed in the budget.

Independent Variables

- Budget Participation (X₁) is the process by which individuals are involved in it and have an influence on the preparation of budget targets that will be evaluated and the need for rewards for achieving those targets.
- Asymmetry Information (X₂) is the difference in information obtained between superiors and subordinates.
- Budget Emphasis (X₃) is a budget emphasis that is giving rewards or evaluating performance for subordinates based on achieving budget targets

Moderating variable (Z) which is Locus of Control is a person's perspective on an event whether he can or does not control (control) the events that happened to him.

4. Result and Discussion

4.1. Result

a. Structural Model (Inner Model) Test Result

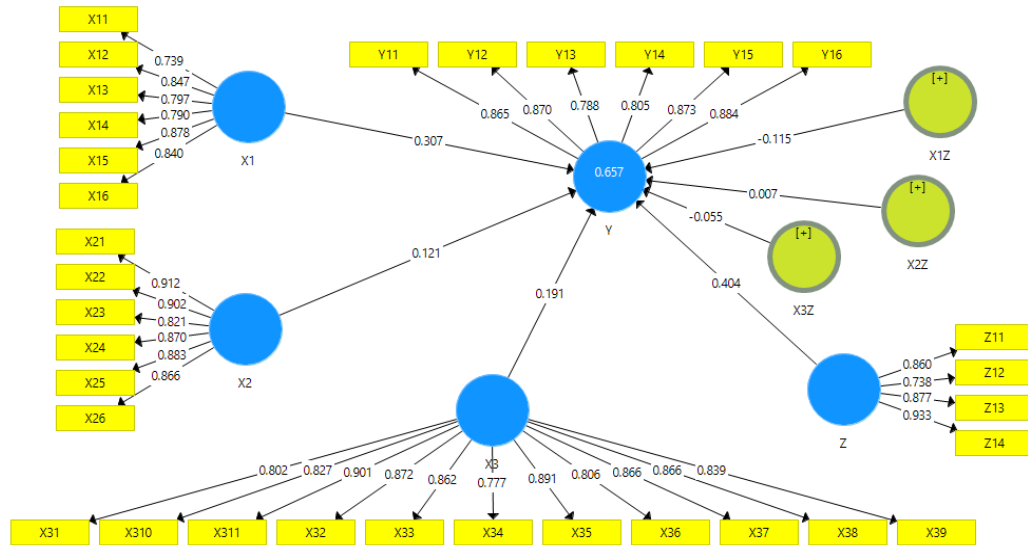


Figure 2. Path and R-square coefficients with moderating effects

b. Path Coefficient Analysis Result

Based on the path diagram it can be seen that the most dominant factor in influencing Budget Slack is Budget Participation (X1) with the highest path coefficient of 0.349. Structural equations are as follows:

Budgetary Slack = 0.307 Budget Participation + 0.121 Asymmetry Information + 0.191 Budget Emphasis + 0.404 Locus Of Control - 0.115 Locus Of Control * Financial Participation + 0.007 Locus Of Control * Asymmetry Information - 0.055 Locus Of Control * Budget Emphasis.

c. Adjusted R² Coefficient Test Result

Based on the results of PLS Algorithm output in Figure 2, it can be seen that the R-Square value with moderation effects obtained by R-Square on the model is 0.657, meaning Locus Of Control * Budget Participation, Locus Of Control * Asymmetry Information, Locus Of Control * Emphasis Budget is able to explain Budgetary slack of 65.7%, this is because the R-square value is greater than 50%, if the R-square is below 50%, the independent variable is said to be less able to explain the dependent variable. The remaining 34.3% is influenced by other variables not found in the research model such as the policy framework, auditor readiness.

d. Effect Size (f²) Test Result

The R-Square value can be calculated the effect size in this research model, as follows:

$$f^2 = \frac{0.657 - 0.577}{1 - 0.657} = 0.23$$

Based on the results of the effect size calculation above, the Locus Of Control variable has a weak effect on the Budgetary Slack of 0.23.

e. Prediction Relevance (Q Square) Test Result

Q square value in this research model, as follows:

$$\begin{aligned} Q^2 &= 1 - (1 - 0.577) - (1 - 0.657) \\ &= 1 - 0.766 \\ &= 0.234 \end{aligned}$$

Based on the results of Q^2 square calculation above, Q^2 is obtained at 0.234, which means that the research model has a large predictive capability, namely the magnitude of the diversity of the research data can be explained by the structural equation model developed in this study at 23.4% and the remaining 76, 6% is explained by other factors outside the model. The Q^2 value shows that the moderating variable model in this research model has strong predictive relevance because the value is above 0.35, and is between the range of the Q^2 value is $0 < 0.503 < 1$, where the model is getting better if the Q^2 value approaches 1.

f. Hypothesis Testing Result

Hypothesis testing is done by looking at the t-statistical value generated from the bootstrapping process. The hypothesis is accepted (supported) if the t-statistic value is greater than 1.96 with a significance level of 5% (two tailed) (Abdilah and Jogiyanto, 2015). The results of the Smart PLS program bootstrapping process can be seen in Table 1 below:

Eksogen	->	Endogen	Path Analysis	T Statistik	P Values	Result
Budget Participation (X1)	->	Budgetary Slack (Y)	0.307	2.498	0.013	Denied
Assymetric Information (X2)	->	Budgetary Slack (Y)	0.121	0.760	0.447	Denied
Budget Emphasis(X3)	->	Budgetary Slack (Y)	0.191			Denied
Locus Of Control * Budget participation	->	Budgetary Slack (Y)	-0.115	343	00	Denied
Locus Of Control * Assymetric Information	->	Budgetary Slack (Y)	0.007	0.052	0.958	Denied
Locus Of Control * Budget Emphasis	->	Budgetary Slack (Z)	-0.055	0.426	0.671	Denied

4.2. Discussion

The effect of each variable is described as follows:

- a. Budget Participation Variables have a negative influence on Budget Slack. This is seen from the t value of statistics for 2.498 and the p-value of 0.013. Because the t-statistic value is more than 1.98 and p-value <0.05, the hypothesis is accepted, meaning that Budget Participation has a significant negative effect on Budgetary Slack.
- b. Asymmetry Information Variables do not affect Budget Slack. This is seen from the t-statistic value of less than 0.760 and the p-value of 0.447. Because the statistical value of t is more than 1.98 and p-value <0.05, the hypothesis is rejected, meaning that Asymmetry Information does not affect the Budgetary Slack.
- c. Emphasis Budget Variables have no effect on Budget Slack. This is seen from the t value of 1.399 and p-value of 0.162. Because the t-statistic value is less than 1.98 and p-value > 0.05, the hypothesis is rejected, meaning that the Emphasis Budget does not affect the Budgetary Slack.
- d. Variable Locus Of Control is not able to moderate Budget Participation with Budgetary Slack. This is seen from the t-statistic value of 0.843 and the p-value of 0.400. Because the t-statistic value is less than 1.98 and p-value > 0.05, the hypothesis is rejected, meaning that Locus Of Control is not able to moderate Budget Participation with Budgetary Slack.
- e. Variables of Locus Of Control are not able to moderate Asymmetry Information with Budget Slack. This is seen from the value of t statistics of 0.052 and p-value of 0.958. Because the t-statistic value is less than 1.98 and p-value > 0.05, the hypothesis is rejected, meaning that Locus Of Control is not able to moderate Asymmetry Information with Budgetary Slack Understanding.
- f. Variables of Locus Of Control are not able to moderate Budget Emphasis with Budgetary Slack. This is seen from the t-statistic value of 0.426 and the p-value of 0.671. Because the t-statistic value is less than 1.98 and p-value > 0.05, the hypothesis is rejected, meaning that Locus Of Control is not able to moderate the Emphasis Budget with Budget Slack.

5. Conclusion and Suggestion

5.1. Conclusion

Based on the results of the analysis of research data, it can be concluded as follows:

- a. Budget Participation has a significant positive effect on budgetary slack at the Islamic University of North Sumatra.
- b. Asymmetry information does not affect the budgetary slack at the Islamic University of North Sumatra.
- c. Emphasis Budget has no effect on budgetary slack at North Sumatra Islamic University.
- d. Locus Of Control cannot moderate the relationship between Budget Participation and Budgetary Slack at the Islamic University of North Sumatra.
- e. The test results show that Locus Of Control cannot moderate Asymmetry Information with budgetary slack at the Islamic University of North Sumatra. Locus Of Control cannot moderate the relationship between Asymmetric Information and budgetary slack at the Islamic University of North Sumatra.
- f. Locus Of Control cannot moderate the relationship between the Emphasis Budget and budgetary slack at the Islamic University of North Sumatra.

5.2. Limitation

The limitations of this study are as follows:

- a. The respondent's answer in answering the questionnaire is not accurate, answering each question is inseparable from the perceptions of each respondent and is subjective.
- b. The research population is only limited to the Islamic University of North Sumatra so that it cannot be generalized.
- c. This study does not consider other variables that might influence Budgetary Slack at the Islamic University of North Sumatra.

5.3. Suggestion

Based on the limitations of the research put forward, the researchers expect this research to be useful as an input material. Some suggestions from researchers are as follows:

- a. The next researcher can increase the number of independent variables that are becoming phenomena that can influence Budgetary Slack at the Islamic University of North Sumatra.
- b. For Islamic University of North Sumatra to give attention to a number of things including Budget Participation and Asymmetric Information in order to continue to improve performance quality at the Islamic University of North Sumatra and be able to implement Budgetary Slack in accordance with the intended target of becoming one of the best Universities in Indonesia.
- c. For Islamic University of North Sumatra to give attention to a number of things including Budget Participation and Asymmetric Information in order to continue to increase the Maturity Level of Islamic University of North Sumatra and be able to implement Budgetary Slack according to the targets set by the Islamic University of North Sumatra, so that Institutions can become more going forward according to his vision of being an Islamic, Tested and Honorable Dignity College, Loved by the Community and the Self of Allah SWT.

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